SOCIAL SECURITY

SPECIAL REPORT

DEMOCRATIC POLICY COMMITTEE

SPECIAL REPORT
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THE BUSH BUDGET THREATENS THE SOLVENCY OF SOCIAL SECURITY

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– A Revised, Updated Version of Special Report –

This Special Report provides an overview of the two ways that the Bush budget threatens the solvency of the Social Security system, as follows:

- First, the Bush plan to partially privatize Social Security by creating personal retirement accounts **would cost $1.1 trillion over 10 years** – requiring significant revenue transfers either from general revenues or from the Social Security Trust Fund. Either of these moves would jeopardize the retirement incomes of both current beneficiaries and of current workers who will depend on Social Security in the future.

- Secondly, the Bush budget – by squandering virtually the entire non-Social Security, non-Medicare surplus on massive tax cuts, skewed disproportionately to the wealthy – **leaves no budgetary resources to bolster Social Security**. By contrast, the House Democratic budget devotes $910 billion of the non-Social Security, non-Medicare surplus to the Social Security and Medicare trust funds – thereby strengthening long-term debt reduction and extending the solvency of Social Security to at least 2050 and Medicare to at least 2040.

The Long-Term Financing Challenge Facing Social Security

Everyone agrees that the Social Security system is facing long-term financing challenges. Specifically, due to long-term demographic trends such as increasing life expectancies and declining fertility rates, the Social Security Board of Trustees currently estimates that the surpluses accumulating in the Social Security Trust Funds will be exhausted by 2038. At that time, incoming tax revenue will be sufficient to pay only about 73% of expected Social Security benefits. Consequently, to meet this challenge and to fulfill the nation's obligations to current and future retirees, Social Security will require some infusion of additional budgetary resources.

In his February 27^{th} address to Congress and in his budget, President Bush has acknowledged both Social Security's long-term financing challenge and the demographic trends that have produced it. Indeed, the Bush budget succinctly states, "As demographics change and costs increase, the challenge we face is ensuring that the Social Security system is strengthened for tomorrow's retirees." Unfortunately, as this report will show, the Bush Administration's plan to partially privatize Social Security drains crucial resources away from the program and leaves it unable to pay full benefits even sooner than expected in 2038 and the President's proposed budget denies Social Security the budgetary resources to grow stronger.

The Bush Partial Privatization Plan Would Drain Resources Away from Social Security

> ***"[The Bush Administration calls for] allowing individuals to keep some of their [Social Security] payroll taxes in personal retirement accounts to provide for their own retirement security."***
>
> Bush Budget "Blueprint for New Beginnings"

One of the key issues that candidate George W. Bush ran on during the 2000 presidential campaign was his pledge to partially privatize Social Security by allowing individuals to divert some of their payroll taxes into personal retirement accounts.

President Bush's plan to partially privatize Social Security would dramatically <u>weaken</u> the program in the short term and deny Social Security the resources it needs for long-term solvency. As the quote above indicates, the President's budget calls for replacing Social Security with a new, partially-privatized system by allowing individuals to put a portion of their payroll taxes in individual accounts. However, <u>allowing workers to divert their payroll taxes into private accounts rather than paying those taxes into the Social Security Trust Fund means that the Social Security Trust Fund will not receive the revenue it needs in order to pay full benefits to retirees</u>.

Indeed, a partial privatization plan would have a <u>dramatic</u> impact on the Social Security Trust Fund and its ability to pay full benefits to retirees. Specifically, if workers were to divert 1 percentage point of the current 12.4 percent payroll tax into individual accounts, the amount of revenue flowing into the Trust Fund would fall by $558 billion between 2002 and 2011 and would leave Social Security unable to pay full benefits by 2030 – 8 years earlier than currently projected. **<u>Furthermore, if workers were to divert 2 percentage points of the current payroll tax into individual accounts (an amount that was suggested by Bush during the campaign), the effect would necessarily be much more dramatic – $1.1 trillion would be diverted out of the Trust Fund over the 2002-2011 period and the Trust Fund would be exhausted by 2024 – 14 years earlier than currently projected.</u>**

Hence, as seen above, to fully fund the type of partially privatized system suggested by candidate Bush during the campaign would cost $1.1 trillion over 10 years – **<u>requiring significant transfers either from general revenues or from the Social Security trust funds</u>**. Either of these moves would jeopardize the retirement incomes of both current beneficiaries and current workers who will depend on Social Security in the future.

Although the Bush budget is not specific about how personal retirement accounts would be paid for, it should be noted that of the $2.6 trillion in Social Security surpluses projected over the next ten years, the Bush budget sets aside only $2 trillion for debt reduction -- **<u>thereby suggesting that there is $600 billion in "uncommitted funds" in the Social Security Trust Fund that could be diverted from the Trust Fund in order to create these personal accounts.</u>**

The Bush Budget Would Also Deny Social Security The Budgetary Resources Necessary for Long-Term Financial Strength

The second key problem with the Bush budget is that, despite the President's pledge during his address to the Congress to "keep the vital promises of Medicare and Social Security," his budget <u>fails to directly dedicate any additional funds to improving the long-term solvency of Social Security</u>. Instead, the various tax cuts that the President has proposed, when all their costs are taken together, would consume virtually the <u>entire</u> non-Social Security, non-Medicare surplus over the next ten years, thus sacrificing an historic opportunity to address long-term needs in such programs as Social Security and Medicare in favor of short-sighted political gains.

Specifically, the Congressional Budget Office projects that, from FY 2002 through FY 2011, budget surpluses will total $5.6 trillion. However, when the $2.5 trillion in projected Social Security surpluses are removed and the $0.4 trillion in projected Medicare surpluses are removed, the total amount of the non-Social Security, non-Medicare surplus -- the surplus that is available for tax cuts, spending increases, or other long-term needs – **<u>is $2.7 trillion</u>**.

And yet, although the President <u>claims</u> that his tax plan would reduce federal revenues by only $1.6 trillion over the next ten years, the Democratic staffs of the Senate and House Budget Committees estimate that the <u>true</u> cost of the President's tax cuts is **<u>$2.6 trillion</u>** – virtually the <u>entire</u> available surplus. Specifically, once the additional costs of fixing the Alternative Minimum Tax, extending expiring tax credits, making additional payments on the debt, and including other tax cut proposals the President has made are added to the President's $1.6 trillion tax cut, the <u>real</u> ten-year cost of the President's tax cuts easily comes to $2.6 trillion. Hence, by consuming virtually all of the available surplus with the tax cut, the Bush budget leaves <u>nothing</u> to provide Social Security with the additional budgetary resources needed to meet its long-term financing challenges.

(Even though President Bush was ultimately forced to slightly reduce the size of the tax cut from $1.6 trillion down to $1.35 trillion in the Budget Resolution Conference Report, once the costs of debt service and additional tax cuts are again taken into account, it is clear there will still be a Republican tax cut package whose <u>true costs approach $2.4 trillion</u>.)

In sharp contrast, the House Democratic budget – offered on the House Floor on March 28 – devoted $910 billion of the non-Social Security, non-Medicare surplus to the Social Security and Medicare trust funds – thereby strengthening long-term debt reduction and extending the solvency of Social Security to at least 2050 and Medicare to at least 2040.